The Great Port Chase

The Great Port Chase of 1998 and 1999 is over. Maersk and Sea-Land have selected the Port of New York and New Jersey, and the lines were brilliant in their tactics of intense private negotiations and artfully applied public pressure.

The chase started a year ago with a joint request for proposal. Subsequently, Maersk made its grand gesture with the arrival of the huge container ship Regina Maersk last summer. This was like the presentation of a beauty pageant winner, and every port wanted a date.

Seven ports were asked, and six came forth with interest.

New York, the incumbent, was initially standoffish in its negotiating approach. Boston declined to participate, recognizing it was not physically able to play in this league. Philadelphia, which also had physical limitations, departed early. Norfolk, Va., was complacent and placed undue confidence in its already existing deep water. Halifax, Nova Scotia, and Baltimore were eager. Even a port that did not yet exist, Queens Point, R.I., made a spirited effort.

The selection of New York and Halifax as two of the three finalists did not surprise anyone. The selection of Baltimore — instead of Norfolk — as the third served as a wake-up call that Sea-Land and Maersk were serious about finding the best alternative.

Any chances for a Halifax choice probably dimmed with the passage of the Ocean Shipping Reform Act. The benefits of transiting Canada — and the freedom from conference activity — were obviated by the newfound ability to sign confidential service contracts.

The contest quickly became mano a mano between New York and Baltimore. Initially, New York was reserved in its posturing, not wishing, in effect, to negotiate against itself. The economics here became very interesting. Both ports acted as economically rational beings, but they started from different positions.

Baltimore could afford to take its proposed rates down very low because it had an existing vacant terminal and low rates to attract high volume made sense. Conversely, New York, with no vacancy, had in mind many of its other tenants, who would inevitably seek the same perceived rate level given Maersk and Sea-Land.

Dubtless, this scenario will play itself in the future. As industry consolidation gives way to fewer, larger carriers, and ports are left with vacant facilities, it could well be a buyers market for years to come. (For example, Maher Terminals will be renegotiating its lease next year. Its negotiating position will probably start with the Sea-Land/Maersk deal and seek further concessions.)

Other ports have been served notice that the cost of poker just went up.

Like the opposing sides in the Trojan War, the two major forces in this port drama were visited by the workings of external deities. Railroads, organized labor and politicians all entered the fray.

The railroads' role was played out in the shadow of the imminent split of Conrail. Part of Baltimore's advantage was that it had been able to assemble a unified team to negotiate attentively and effectively. This momentum carried over into the port contest.

Organized labor also became involved. The International Longshoremen's Association was a highly visible and vocal advocate in both Baltimore and New York.

It is noteworthy that the union took such an active role in each port, because the gain of the ILA members in one was a victory to be won at the expense of their union brothers in the other.

In the defense of the ILA in New York, it had actively been working to make New York viable again. Losing a quarter of the business of the port overnight would have devastated years of effort. In addition, due to the assessment formula in place, had a large part of the business left, the remaining lines would have been forced to pay even higher fees, which might have accelerated traffic diversion.

Of course the politicians could not miss their moment. Gov. Christie Whitman of New Jersey was a last-minute heroine by adding $120 million of her state's money to the winning bid.

One casually wonders whether her intended quest for a U.S. Senate seat, and the need to attract organized labor's support, had any bearing on her decision. Providing the money will be the responsibility of her successors, as will be resolving the severe political chasm with New York, New Jersey's partner in the port authority.

Meanwhile, the resulting fallout is mixed. Naturally, Sea-Land and Maersk are big winners. Their competitors will be hard pressed to match their agreement. The financial markets will decide how fortuitous a deal was made by the port authority when the creditworthiness of its debt is graded.

But Baltimore is also a winner. Overnight it has re-entered the major leagues of East Coast ports. Surely some line will catch Baltimore on the rebound and get a sweetheart deal like the one jilted by Sea-Land and Maersk.

The other ports have been served notice that the cost of poker just rose. As the shipping industry evolves, ports will be hard pressed to keep up.

Theodore Prince (Ted.Prince@kleinschmidt.com) is senior vice president - sales and marketing for Kleinschmidt Inc., an electronic commerce provider.